MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022

FULE2612 – LAW AND ECONOMICS

(All sections / Groups)

8 AUGUST 2022
Reading Time : 9.00 a.m. – 9.15 a.m.
(15 Minutes)
Answering Time: 9.15 a.m. – 12.15 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. Students will have **fifteen minutes** during which they may read the paper and make rough notes ONLY in their question paper. Students then have the remaining **THREE HOURS** in which to answer the questions.

2. This Question paper consists of 4 pages with 5 Questions only.

3. Attempt **TWO** questions from **PART A** and **ALL** questions from **PART B**. The distribution of the marks for each question is given.

4. Students are not allowed to bring in any statute and calculator into the Examination Hall.

5. Please write all your answers in the Answer Booklet provided.

PART A

(ANSWER ANY TWO QUESTIONS)

QUESTION 1

June has a budget of RM40 to buy rambutans and durians. The price of rambutans fluctuates at RM10/kg, RM8/kg, RM5/kg, and RM4/kg, while the price of durians remains the same at RM10/kg.

By applying budget lines and indifference curves, show why June's demand curve for rambutans is downward slopping.

(Total: 20 marks)

QUESTION 2

Alice has 2 cempedaks and RM70, and Bob has 8 cempedaks and RM30.

(a) By applying the concept of an Edgeworth box, show that Alice and Bob can increase their utility in an exchange.

(10 marks)

(b) Apply an Edgeworth box to show how a contract curve is constructed.

(10 marks)

(Total: 20 marks)

Continued ...

QUESTION 3

According to Jeremy Bentham in his *An Introduction to the Principles of Morals and Legislation* (1789):

> Now where the offence of such a nature, that a punishment which, in point of magnitude, should but just exceed the profit of it, would be sufficient to prevent it, it might be rather difficult perhaps to find an instance in which such punishment would clearly appear to be unprofitable. But the fact is, there are many cases in which a punishment, in order to have any chance of being efficacious, must, in point of magnitude, be raised a great deal above that level. Thus it is, wherever the danger of detection is, or, what comes to the same thing, is likely to appear to be, so small, as to make the punishment appear in a high degree uncertain. In this case it is necessary, as has been shown, if punishment be at all applied, to raised it in point of magnitude as much as it falls short in point of certainty.

The price of a one-hour parking coupon in Melaka is RM0.60 and every violation for not displaying a valid parking coupon entails a fine.

(a) Assuming that the cost of enforcing a parking offence is zero, and applying the probability of being caught for not displaying a valid parking coupon as 0.2, show that the minimum fine for a violation should be higher than RM0.60.

(15 marks)

(b) In reality, the enforcement cost is not zero but is proportionate to the number of trips the enforcement officers make to patrol the parking areas.

Apply the effect of a positive enforcement cost to the amount of fines as well as the optimal number of patrol trips.

(5 marks)

(Total: 20 marks)

Continued ...

PART B

(ANSWER ALL QUESTIONS)

QUESTION 4

To provide 5G telecommunication services on a new generation of mobile phones, new telecommunication equipment and infrastructure need to be installed all over the country. Unfortunately, the fixed cost of such equipment and infrastructure is high, whereas once installed, the marginal cost of providing 5G service is low.

Apply law and economics principles with the aim of solving the goal of providing 5G services as efficiently as possible to the public, assess the following:

(a) How providing 5G telecommunication services can be considered a natural monopoly,

(6 marks)

(b) How regulation can be used on 5G services to minimise the traditional ill-effects of a monopoly,

(12 marks)

(c) How market competition can be incorporated into the provision of 5G services.

(12 marks)

(Total: 30 marks)

Continued ...

QUESTION 5

The City of Louise has a population of three million people. One of the challenges of managing a city of this size is dealing with the huge amount of rubbish produced daily by its industries and households. A consultant hired by the City of Louise suggested two possible solutions to the rubbish disposal problem.

Apply law and economics principles to the following two suggestions to show that they can reduce the amount of rubbish produced daily:

(a) Tax rubbish disposal, and

(20 marks)

(b) Regulate against excessively large packaging for goods.

(10 marks)

(Total: 30 marks)

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